



# Serving the customer

Corporates must learn how to respond to market demands  
by dynamic alignment of their supply chain

BY John Gattorna

**T**he situation is all too familiar: many enterprises around the world are almost out of control. They are either over or under-serving their customers, but despite an abundance of data, they don't know which. Their understanding of how to serve their customers – and at what cost – is flimsy indeed.

While organisations are becoming more complex, the solutions often being sought are paradoxically simplistic and short term. They cut costs or standardise business processes and technology, ignoring the fact that markets are fragmenting. The result? More exceptions and a higher cost-to-serve – the very things they were trying to avoid.

Proactive companies such as Toyota and fashionwear firm Zara are collaborating with suppliers and customers to eliminate costs permanently from different parts of their supply chain. Their innovation is causing their competitors, such as Ford and Marks & Spencer, to scratch their heads and search for data to pinpoint a winning formula. But no such formula exists.

We need a radically new approach in deciding how to allocate resources, one with a direct linkage to the customer. Why? Because customers are the ultimate frame-of-reference and we must listen more carefully to what they are trying to tell us. Moreover, we need a new over-arching organisational framework of the firm, which can be used to help understand the workings of corporate supply chains. This 'dynamic alignment framework' should link the firm's internal capability and leadership style to the marketplace, with strategy as the bridge between the two.

In reality, all enterprises have numerous supply chain pathways running through them. The challenge is to make them more manageable and therefore more cost-effective. The key to achieving this lies in understanding that customers at the end

of the supply chain display recognisable behaviour patterns, as do the people who work inside businesses. The task of designing and operating multiple supply chains is not as difficult as one might think. Research has shown that in most product/service and buyer/seller situations, up to four dominant buying behaviours stand out, not 50 or 60, as previously believed.

When different enterprises are viewed through the prism of dynamic alignment, the importance of having executive leadership that understands the target market becomes abundantly clear. Get the leadership aligned with the market and the other two dimensions – strategy and internal cultural capability – tend to follow. Get them misaligned and there is little chance of ever achieving operational and financial success.

## THE FOUR GENERIC SUPPLY CHAINS

*Continuous Replenishment* supply chains focus on relationships. Designed to meet predictable demand, they are based on information sharing, consistency and long-term stability. Key performance indicators (KPIs) emphasise loyalty and retention, and other facets of organisation design are very consensus-based. The Continuous Replenishment supply chain is the only supply chain type in which collaboration really works. Look at the relationship between Jaguar and Unipart: the trick is to collaborate only with those who want to collaborate.

*Lean* supply chains are characterised by scale, low variety, low cost and make-to-forecast (MTF). Forecasts work because customers tend to buy proven products in mature markets. Efficiency-driven customers just want a good, consistent, no-nonsense service; they are not interested in building relationships – quite the contrary. The appropriate organisation structure here is one designed around core processes. Personnel are incentivised to follow rigid policies and jobs are centralised, as is the style of internal communications. This is a highly

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regulated sub-culture designed to meet predictable demand. Managers of Lean supply chains lead by precedent and use information to control. Wal-Mart and Procter & Gamble joined forces to offer consumers Every Day Lower Prices (EDLP) to smooth out their supply chain and lower costs.

*Agile* supply chains are the most responsive and aggressive, and are specifically designed to satisfy unforeseen demand. They enable fast decision-making, fast delivery and rapid response in unpredictable demand environments. This is a world in which you forecast-for-capacity and build-to-order (BTO). Capacity is the key and you will almost always have to invest in redundant capacity to absorb volatile demand patterns. The technique used to cope with this is called 'Postponement', where products are made to a certain stage and then completed when an order is received. Companies such as Benetton, Dell, HP, Zara, Fantastic Furniture and Daewoo Shipping are past masters at this practice.

The only KPI that matters here is absolute speed of response to customers' demands. Multiple systems applications are used to support analysis and decision-making. People need to be organised in multi-disciplinary project teams, focusing on a particular customer segment and ready for action. Only those ready to problem-solve on the run and willing to take limited risks need apply. Leaders of Agile supply chains embrace change with enthusiasm and go for growth. It's an exciting and sometimes nerve-racking place to work.

*Fully Flexible* supply chains are designed to meet unplannable demand with innovative solutions. Clusters of highly creative individuals form the organisation, but structure is limited and few formal processes exist. This supply chain is all about taking local initiative, and individuals are encouraged to break all the rules and 'walk on the grass'.

The key is spontaneity and a preference for taking risk in search of creative solutions. We are seeing more of this mindset creeping into the not-for-profit agencies that provide worldwide humanitarian relief, as the frequency of natural disasters increases. In the business world, enterprises have always been prepared to shift buying behaviours temporarily in order to resolve a major problem. Leaders of Fully Flexible supply chains are inspirational, informal and driven to find creative solutions to seemingly impossible problems.

### HYBRID SUPPLY CHAIN CONFIGURATIONS

While the characteristics of each supply chain type are important, the reality is they rarely occur in their pure form. We usually see various combinations of the four, the most common being Lean on the supply side and Agile on the demand side, sometimes with collaboration between parties occurring in the background. A perfect example of the Lean/Agile structure is the way the Spanish firm Zara operates. It sources low-cost fabric and accessories from markets such as China, brings these materials closer to European markets using relatively slow transport, and then, once consumer preferences are identified, designs and produces the finished product in a matter of 15 days. And it does this 15 or 16 times a year. In effect, the company runs

on a fast, regular rhythm all year round, and this mode of operation makes it almost untouchable in a competitive sense. Similar examples exist in the electronics equipment industry.

The biggest challenge facing companies is to breed and retain the multiple sub-cultures necessary to underpin the strategies required to align with their customer base. We know what the levers are, but how to mix and match these remains a mystery to most executives. The good news is that this task is within reach if you keep a careful eye on customer buying behaviours and introduce a coding system inside the enterprise that keeps everyone equally informed.

The important point is that while some personnel have formal roles as custodians of the logistics infrastructure and manage relationships with suppliers and providers, everybody in the enterprise should contribute to the overall supply chain effort in their own way.

### DYNAMIC ALIGNMENT TO EMBEDDED ALIGNMENT

How to achieve and embed alignment principles is the crucial issue. The new breed of enterprises – Dell, Zara, Nokia, and Li & Fung – are already doing it, but many more traditional bricks-and-mortar companies struggle to reinvent themselves and respond to fast-changing markets, primarily because of a deeply rooted internal resistance to change.

The UK's National Health Service (NHS) has just signed a 10-year contract with German transport firm DHL to supply goods and equipment to hospitals and doctors' surgeries in a deal that will save the NHS £1 billion over 10 years. Employees from NHS Logistics and the NHS Purchasing & Supply Agency will be transferred to the private sector.

The experience of UK retailer J Sainsbury in the 1990s, when it steadily lost market share and fell significantly behind rival supermarket chain Tesco, shows how operational and financial results can erode over time due to a failure to adapt. In such situations, drastic action has to be taken, and fast. A fresh approach is required to lift performance and spread risk. However, all systems have their teething problems. Sainsbury tried to streamline its supply chain by putting together a consortium of different partners with new, mainly technical capabilities and an investment of £400 million, but the system broke down in its implementation, leading to empty shelves and lost custom. The company had to revert to a more people-based approach.

New-generation supply-chain business models can bring instant 'embedded' alignment because of the selective way they are designed, formed and implemented. By creating an innovative sub-culture, the new entity has an almost instant capability to 'out-cycle' competitors' supply chains through speed of decision-making and speed of action. However, there are few success stories to report as yet. This situation will no doubt change as current prototypes evolve into successful models. And when that happens, they will be quickly replicated. The future belongs to those who dare to innovate. ■

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